



RBC Global
Asset Management

RBC FUNDS

Simplified Prospectus

December 19, 2011

Series 0 units

Fixed-Income Funds

Phillips, Hager & North Total Return Bond Trust

RBC High Yield Bond Trust

No securities regulatory authority has expressed an opinion about these units and it is an offence to claim otherwise.

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Introduction

In this document, *we*, *us* and *our* refer to RBC Global Asset Management Inc. (*RBC GAM*). We refer to both of the RBC Funds listed on the front cover of this simplified prospectus as the *funds* and each individual RBC Fund as a *fund*. There are other RBC Funds, which are offered under separate simplified prospectuses and annual information forms. Each fund is a mutual fund organized as a trust.

This simplified prospectus contains selected important information about the funds listed on the front cover, to help you make an informed investment decision and understand your rights as an investor.

This simplified prospectus is divided into three parts. Pages 2 to 6 of this simplified prospectus explain general information regarding mutual funds and their risks and tell you who manages the funds. Pages 7 to 12 contain specific information about each of the funds, and page 13 to the inside back cover contain general information about the funds.

You will find more information about each fund in the following documents:

- › the fund's annual information form;
- › the fund's most recently filed fund facts;
- › the fund's most recently filed annual financial statements;
- › any interim financial statements filed after those annual financial statements;
- › the fund's most recently filed annual management report of fund performance; and
- › any interim management report of fund performance filed after that annual management report of fund performance.

These documents are incorporated by reference into this simplified prospectus. That means they legally form part of this simplified prospectus just as if they were printed in it. For a copy of these documents, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), email us at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French) or ask your dealer.

You can also obtain these documents and other information about the funds at www.sedar.com.

What is a mutual fund and what are the risks of investing in a mutual fund?

A mutual fund is a pool of investments made on behalf of people with a similar investment objective. When you invest in a mutual fund, your money is working together with that of many other investors. A professional investment manager invests this money on behalf of the whole group.

Investors share a mutual fund's income, expenses, gains and losses in proportion to their interest in the mutual fund. Mutual funds can give individuals the advantages of a simpler, more accessible, less expensive and less time-consuming method of investing in a portfolio of securities.

Mutual funds own different kinds of investments, depending on their objectives. These include equities like stocks, fixed-income securities like bonds and cash or cash equivalents like treasury bills, or units of other mutual funds, called the *underlying funds*. The value of these investments will change from day to day, reflecting changes in interest rates, economic conditions, financial markets and company news.

When you invest in a mutual fund trust, you are buying a portion of that fund called a unit. Mutual funds keep track of all the individual investments by recording how many units each investor owns. The more money you put into a mutual fund, the more units you get. The price of a unit changes every day, depending on how the investments are performing. When the investments rise in value, the price of a unit goes up. When the investments drop in value, the price of the unit goes down.

Your investment in any mutual fund is not guaranteed. Unlike bank accounts or guaranteed investment certificates (*GICs*), mutual fund units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

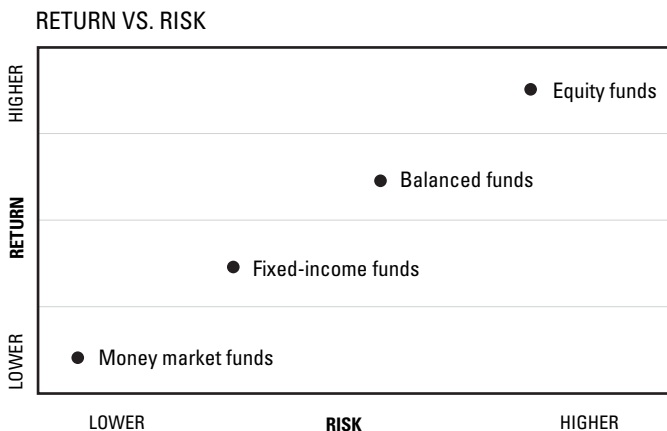
Under exceptional circumstances, you may not be able to redeem your units. See *Purchases, switches and redemptions – When you may not be allowed to redeem your units* on page 14 for more information.

Risk and return

As an investor, there is always a risk you could lose money. Mutual funds are no exception, but the degree of risk varies considerably from one mutual fund to the next. As a general rule, investments with the greatest risk have the greatest potential for gains, but also have the greatest potential for losses. The key is to recognize the risk involved with your investment, understand it, and decide whether it is a risk you are comfortable accepting.

Although the value of your investments may drop in the short term, a longer investment horizon will help to lessen the effects of short-term market volatility. A shorter investment horizon may result in you having to sell your investments in adverse conditions. Ideally, investors in equity funds should have a minimum five- to nine-year investment horizon, which generally provides enough time for the investments to overcome any short-term volatility and grow.

The following chart shows the relationship between risk and potential return. As you can see, money market funds are the least volatile and generally have the lowest returns. At the other end of the scale, equity funds are usually the most risky, but also tend to have the highest potential return.



At any given time, however, one mutual fund may outperform another. The key is to have a diversified portfolio of mutual funds to try to ensure that a decline in one mutual fund is offset by growth in another, helping to reduce risk and smooth out returns. Your advisor can help you build a portfolio that's right for you.

General investment risks

The value of mutual funds can change from day to day because the value of the securities in which they invest can be affected by changes in interest rates, the economy, financial markets or company news. As a result, when you redeem your mutual fund units, they may be worth more or less than when you bought them.

Here are some of the specific risks, listed in alphabetical order, that can affect the value of your investment in a fund. Turn to the fund descriptions starting on page 9 to find out which risks apply to each fund.

Credit risk

Credit risk is the possibility that a borrower, or the counterparty to a derivatives contract, repurchase agreement or reverse repurchase agreement, is unable or unwilling to repay the loan or obligation, either on time or at all. Companies, governments and special purpose vehicles (such as vehicles that issue asset-backed securities or mortgage-backed securities) that borrow money, and the debt securities they issue, are rated by specialized rating agencies. Debt securities issued by companies or governments in emerging markets often have higher credit risk (lower rated debt), while debt securities issued by well-established companies or by governments of developed countries tend to have lower credit risk (higher rated debt). A downgrade in an issuer's credit rating or other adverse news regarding an issuer can influence a debt security's market value. Other factors can also influence a debt security's market value such as the level of liquidity of the security, a change in the market perception of the creditworthiness of the security, the parties involved in structuring the security and the underlying assets, if any. Lower rated and unrated debt instruments generally offer a better return than higher grade debt instruments but have the potential for substantial loss. Funds that invest in companies or markets with higher credit risk tend to be more volatile in the short term. However, they may offer the potential of higher returns over the long term.

Currency risk

Most funds are valued in Canadian dollars. However, funds that purchase foreign securities may be required to pay for such securities using a foreign currency and receive a foreign currency when they sell them. Such funds may also purchase foreign currencies as investments. As a result, changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollars, of any foreign securities or foreign currencies in a fund. For example, if the Canadian dollar rises relative to the U.S.

dollar, a fund's U.S. holdings will be worth fewer Canadian dollars. This decline in value may reduce, or even eliminate, any return the fund has earned. Currency exposure may increase the volatility of foreign investments relative to Canadian investments. Some funds may hedge (protect against) the risk of changes in foreign currency exchange rates of the underlying assets of the fund.

Derivative risk

A derivative is a type of investment whose value is derived from the performance of other investments or from the movement of interest rates, exchange rates or market indices.

The funds may use derivatives as permitted by the Canadian Securities Administrators (*CSA*) as long as their use is consistent with the individual fund's investment objectives. **A fund cannot use derivatives for speculative trading or to create a portfolio with excess leverage.** If a fund uses derivatives, securities regulations require that the fund hold enough assets or cash to cover its commitments in the derivative contracts. This limits the amount of losses that could result from the use of derivatives.

There are many different types of derivatives – they usually take the form of a contract to buy or sell a specific commodity, currency, stock or market index. The most common types of derivatives are:

- › a futures or forward contract – these are agreements made today to buy or sell a particular currency, security or market index on a specific day in the future at a specified price;
- › an option contract – these are agreements that give the buyer the right, but not the obligation, to buy or sell certain securities within a certain time period, at a specified price; and
- › a swap agreement – these are negotiated contracts between parties agreeing to exchange payments based on returns of different investments. The most common type is an interest rate swap. Party A agrees to pay Party B a fixed amount based on a pre-set interest rate. In return, Party B agrees to pay Party A a floating amount based on a reference rate such as bankers acceptances or the London Inter-Bank Offered Rate (*LIBOR*).

Derivatives can help a mutual fund achieve its investment objectives and may be used in three different ways:

- › to protect against or limit the changes in the value of an investment that may result from changes in interest rates, foreign exchange rates, commodity prices, and stock prices;

- › as a substitute to investing directly in a particular security or market. A mutual fund may use derivatives instead of buying the actual security because it may be cheaper or more efficient; or
- › as a substitute for investing directly in a foreign currency as part of the overall investment strategy of a mutual fund which invests in foreign securities. A portfolio manager may take the view that a currency will underperform or overperform another currency over a period of time and use currency forwards to take on currency exposure on a short- or long-term basis.

Derivatives have their own special risks. Here are some of the common ones:

- › Using derivatives for hedging may not always work and it could limit a mutual fund's potential to make a gain.
- › Using derivatives for non-hedging does not protect a mutual fund from a decline in the value of the underlying security, currency or market for which the derivative is a substitute.
- › The price of a derivative may not accurately reflect the value of the underlying currency or security.
- › There is no guarantee that a mutual fund can close out a derivative contract when it wants to. If, for example, a stock exchange imposes trading limits, it could affect the ability of a mutual fund to close out its position in derivatives. This type of event could prevent a mutual fund from making a profit or limiting its losses.
- › Derivatives traded on foreign markets may be harder to trade and may have higher credit risks than derivatives traded in North America.
- › The other party to a derivative contract may not be able to meet its obligation to complete the transaction.

Foreign investment risk

Foreign investments are affected by global economic factors. There is often less information available about foreign companies and many countries have less stringent accounting, auditing and reporting standards than we do in Canada. Some foreign stock markets have less trading volume, which may make it more difficult to sell an investment or make prices more volatile. Certain countries may also have foreign investment or exchange laws that make it difficult to sell an investment or may impose withholding or other taxes that could reduce the return on the investment. Different financial, political and social factors could hurt the value of foreign investments. As a result, mutual funds that specialize in foreign investments may experience larger and more frequent price changes in the short term.

Pursuant to new U.S. tax rules, unitholders of the funds may be required to provide identity and residency information to the funds, which may be provided by the funds to U.S. tax authorities in order to avoid a U.S. withholding tax being imposed beginning on January 1, 2014 on U.S. and certain non-U.S. source income and proceeds of disposition received by the funds or on certain amounts (including distributions) paid by the funds to certain unitholders.

Interest rate risk

If a fund invests primarily in bonds and other fixed-income securities, the biggest influence on the fund's value will be changes in the general level of interest rates. If interest rates fall, the value of the fund's units will tend to rise. If interest rates rise, the value of the fund's units will tend to fall. Depending on a fund's holdings, short-term interest rates can have a different influence on a mutual fund's value than long-term interest rates. If a mutual fund invests primarily in bonds and other fixed-income securities with longer-term maturities, the biggest influence on the mutual fund's value will be changes in the general level of long-term interest rates. If a mutual fund invests primarily in bonds and other fixed-income securities with shorter-term maturities, the biggest influence on the mutual fund's value will be changes in the general level of shorter-term interest rates.

Liquidity risk

Liquidity refers to the speed and ease with which an asset can be sold and converted into cash. Most securities owned by mutual funds can be sold easily and at a fair price. In highly volatile markets, such as in periods of sudden interest rate changes, certain securities may become less liquid, which means they cannot be sold as quickly or easily. Some securities may be illiquid because of legal restrictions, the nature of the investment, certain features, like guarantees or a lack of buyers interested in the particular security or market. Difficulty in selling securities may result in a loss or reduced return for a fund.

Securities lending, repurchase and reverse repurchase transaction risks

The funds may enter into securities lending arrangements and repurchase and reverse repurchase transactions in accordance with the rules of the CSA. Securities lending, repurchase and reverse repurchase transactions may be entered into to generate additional income or as a short-term cash management tool to enhance the net asset value of a fund.

In a securities lending transaction, a fund lends its securities to a borrower in exchange for a fee. A repurchase agreement takes place when a fund sells a security at one price and agrees to buy it back later from the same party at a higher price. The difference between the higher price and the original price is like the interest payment on a loan. A reverse repurchase agreement is the opposite of a repurchase agreement and occurs when the fund buys a security at one price and agrees to sell it back to the same party at a higher price. The other party to a securities lending transaction, repurchase agreement or reverse repurchase agreement delivers collateral to the fund in order to secure the transaction.

Securities lending, repurchase and reverse repurchase transactions come with certain risks. If the other party to the transaction cannot complete the transaction, the mutual fund may be left holding the collateral delivered by the other party to secure the transaction. In a securities lending or repurchase transaction, the fund could lose money if the value of collateral held and cash received does not increase as much as the securities loaned or agreed to be repurchased. In a reverse repurchase transaction, the fund could lose money if the value of the securities purchased drops relative to the cash and collateral delivered. To minimize these risks, the other party must provide collateral that is worth at least 102 per cent of the value of the mutual fund's securities or cash and of the type permitted by the CSA. The value of the transactions and the collateral are monitored daily and the collateral adjusted appropriately by the securities lending agent of the funds.

The funds, when entering into securities lending or repurchase transactions, may not commit more than 50 per cent of their total assets to securities lending or repurchase transactions at any time. Securities lending transactions may be ended at any time and all repurchase transactions and reverse repurchase transactions must be completed within 30 days.

Underlying fund risk

The securities of a fund may be held in significant percentages by an investor, including another mutual fund. In order to meet purchase and redemption requests by the investor, the fund may have to alter its holdings significantly and purchase or sell investments at unfavourable prices. This can reduce the returns of the fund.

Organization and management of the funds

This section tells you about the companies that are involved in managing or providing services to the funds. RBC GAM and RBC Dominion Securities Inc. (*RBC DS*) are both wholly-owned subsidiaries of Royal Bank of Canada (*Royal Bank*). We refer to Royal Bank and affiliated companies of Royal Bank as *RBC*. RBC Dexia Investor Services Trust (*RBC Dexia*) is a joint venture equally owned by Royal Bank and Dexia Banque Internationale à Luxembourg.

<p>Manager, Trustee, Portfolio Advisor and Principal Distributor RBC Global Asset Management Inc. 155 Wellington Street West Suite 2200 Toronto, Ontario M5V 3K7</p>	<p>RBC GAM is the manager and trustee of, portfolio advisor to, and principal distributor of, the funds. RBC GAM manages the day-to-day business of the funds, provides investment advice and portfolio management services to the funds and is the principal distributor of Series O units of the funds.</p> <p>Each fund is a trust. When you invest in a fund, you are buying units in the trust. As trustee, RBC GAM holds title to each mutual fund trust's property such as cash and securities, on behalf of its unitholders.</p> <p>RBC GAM is the primary investment manager for the RBC® businesses serving the needs of private clients, including the RBC Funds and PH&N Funds.</p> <p>If a unitholder meeting is called for an underlying fund that is managed by us or an affiliate, you will have the voting rights that come with the units of the underlying fund and we will not vote the units of the underlying fund.</p>
<p>Custodian RBC Dexia Investor Services Trust Toronto, Ontario</p>	<p>The custodian holds the assets of the funds.</p>
<p>Registrar Royal Bank of Canada, RBC Dexia Investor Services Trust and RBC GAM Montreal, Quebec, Toronto, Ontario and Vancouver, British Columbia</p>	<p>Royal Bank, RBC Dexia and RBC GAM keep a record of who owns all fund units. Royal Bank is an affiliate of RBC GAM.</p>
<p>Auditor Deloitte & Touche LLP Toronto, Ontario</p>	<p>The auditor performs the required examination of the annual financial statements of the the funds.</p>
<p>Independent Review Committee (Board of Governors)</p>	<p>The Board of Governors acts as the independent review committee that the funds are required to have under Canadian securities laws. The Board of Governors reviews and provides input on conflict of interest matters in respect of RBC GAM and the funds. The Board of Governors also provides advice to RBC GAM on other issues relating to the management of the funds.</p> <p>The Board of Governors is composed of nine members and each is independent from RBC GAM, the funds and entities related to RBC GAM. The Board of Governors prepares, at least annually, a report for unitholders of its activities as the independent review committee. This report is available, at no cost, on the RBC GAM website at www.rbcgam.com or by contacting RBC GAM by email at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French).</p> <p>Additional information about the Board of Governors, including the names of the members, is available in the funds' annual information form.</p>

Specific information about each of the mutual funds described in this document

How to read these fund descriptions

Fund details

This table gives you a brief summary of each fund. It describes what type of mutual fund it is, when it was established and the series of units that the fund offers. The table also highlights that units of the fund are not a qualified investment for registered plans or tax-free savings accounts (*TFSAs*). It also tells you the management fee and administration fee for the Series O units offered by the fund.

What does the fund invest in?

Investment objectives

This section outlines the investment objectives of each fund and the type of securities in which the fund may invest to achieve those investment objectives.

Investment strategies

This section describes the principal investment strategies that the portfolio advisor uses to achieve the fund's investment objectives. It gives you a better understanding of how your money is being managed. The format also allows you to compare more easily how different mutual funds are managed.

This section also highlights:

- › any significant investment restrictions adopted by the fund; and
- › the potential use of derivatives and a description of how they will be used.

Regulatory relief from investment restrictions

RBC GAM has received relief from applicable securities legislation for the funds to engage in certain derivatives, related issuer and related party transactions as described below. Such transactions must be consistent with the investment objectives of a fund and related issuer and related dealer transactions must be carried out in accordance with any instructions of the Board of Governors of the fund.

Additional information about the relief described below, as well as certain other relief, is contained in the annual information form.

Use of derivatives

A fund is permitted to:

- › enter into interest rate swaps, credit default swaps or currency forwards with a remaining term to maturity of greater than three years;
- › use additional portfolio assets to those contemplated under National Instrument 81-102 – Mutual Funds as cash cover in respect of derivative transactions; and
- › use a right or obligation in respect of the underlying interest as cover in respect of derivative transactions, in addition to cash cover.

A fund which invests in foreign securities may use derivatives for non-hedging purposes in order to gain exposure to foreign currencies. The fund's exposure to non-hedging currency transactions will not exceed 7.5 per cent of the assets of the fund, unless otherwise indicated under the Investment strategies section of a fund. See *What is a mutual fund and what are the risks of investing in a mutual fund? – Derivative risk* on page 4 for more information about derivative risk.

Purchase of debt securities

A fund is permitted to:

- › purchase debt securities of a related issuer which are not traded on an exchange if the purchase is made in the secondary market;
- › purchase debt securities from and sell debt securities to related dealers that are principal dealers in the Canadian debt securities market; and
- › purchase and hold debt securities issued by a related party in a primary offering (other than asset-backed commercial paper securities) with a term to maturity of 365 days or more.

What are the risks of investing in the fund?

Understanding risk and your comfort with risk is an important part of investing. This section highlights the specific risks of each fund. We have listed the risks in the order of relevance for each fund. You will find general information about the risks of investing and descriptions of each specific risk in *What is a mutual fund and what are the risks of investing in a mutual fund?* on page 2.

Who should invest in this fund?

This section explains the type of investor for whom the fund may be suitable. As an investor, the most important part of your financial plan is understanding:

- › your objectives – what are you expecting from your investments – income, growth, or a balance of the two;
- › your investment time horizon – how long are you planning to invest; and
- › your risk tolerance – how much volatility in your investment are you able to accept.

When looking at each fund, you should also consider how the fund will work with your other investment holdings. For instance, if you are considering a mutual fund with a high investment risk rating, it may be too risky if it is your only investment. If you plan on holding it as a portion of your overall portfolio, it may be a good way to increase your potential portfolio returns while limiting the overall risk of the portfolio – benefiting from diversification.

Investment risk classification methodology

We assign fund risk ratings to each fund as an additional guide to help you decide whether a fund is right for you. Our determination of the risk rating for each fund is guided by the methodology recommended by the Fund Risk Classification Task Force of The Investment Funds Institute of Canada (*Task Force*). The Task Force concluded that the most comprehensive, easily understood form of risk is the historical volatility of a fund as measured by the standard deviation of its performance. However, you should be aware that other types of risk, both measurable and non-measurable, also exist. Additionally, just as historical performance may not be indicative of future returns, a fund's historical volatility may not be indicative of its future volatility. The Task Force guidelines suggest that managers refer to standard deviation bands associated with fund categories as a point of reference where historical performance does not exist. Consistent with the Task Force guidelines, qualitative factors are also considered before making a final determination of the appropriate risk ratings.

Using this methodology, we have assigned a risk rating to each fund as either low or low to medium. In certain instances, we may classify a fund either higher or lower than the risk rating indicated by the Task Force's methodology. We may do so where qualitative factors, such as style and sector concentration, may contribute to the fund's overall volatility and therefore the risk rating of the fund. We review the risk rating for each fund on an annual basis.

A copy of the methodology used by RBC GAM to identify the investment risk levels of the funds is available on request, at no cost, by calling 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French) or by writing to RBC GAM at the address on the back cover of this simplified prospectus.

Distribution policy

This section explains when the funds will make distributions. You earn money from the funds when they distribute amounts to you out of interest and other income earned and capital gains, if any, realized on their underlying investments. The funds may also make additional distributions, including distributions treated as a return of capital. Distributions of the funds are generally treated as ordinary income, capital gains, foreign source income or non-taxable amounts (including returns of capital). Distributions are reinvested in additional units of the same fund unless you tell your dealer that you want them in cash. You will find more information about distributions in *Income tax considerations for investors* on page 17.

Fund expenses indirectly borne by investors

We cannot provide information regarding fund expenses indirectly borne by investors in respect of the funds because they were created on December 19, 2011.

Additional information

Past performance and financial highlights

You can find more information, including past performance and financial highlights, in the annual and interim management reports of fund performance for each fund, when available. For a copy of these documents, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), send an email to funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French) or ask your dealer.

Policies and procedures regarding proxy voting

As portfolio advisor for the funds, RBC GAM has responsibility for the investment management of the funds, including the exercise of voting rights attaching to securities held by the funds. Each fund has proxy voting policies and procedures which require the fund's voting rights to be exercised in accordance with the best interests of the fund. Additional information about the policies and procedures regarding proxy voting, including how to obtain a copy of such policies, is available in the annual information form of the funds.

Phillips, Hager & North Total Return Bond Trust

Fund details

Type of fund	Canadian bond fund
Date started	December 19, 2011
Securities offered	Trust units – Series O units
Registered plan eligibility	Not eligible for registered plans or TFSAs.
Fees and expenses	No management fees are payable by the fund. Unitholders pay a negotiated fee directly to RBC GAM which will not exceed 2.00%. Fees and expenses payable by the fund consist of an administration fee of 0.02%, taxes and other fund costs. See <i>Fees and expenses</i> on page 15 for details.

What does the fund invest in?

Investment objectives

- › To generate interest income and provide stability of capital.

The fund invests primarily in a well diversified portfolio of fixed-income securities issued by Canadian governments and corporations.

We will not change the fundamental investment objectives of the fund unless we have the consent of a majority of the voting unitholders of the fund to do so.

Investment strategies

To achieve the fund's objectives, the portfolio manager:

- › invests primarily in medium-to high-quality corporate and government bonds of Canadian issuers. In addition, the portfolio manager may invest in Canadian asset-backed commercial paper. The average term to maturity of the portfolio is managed within strict guidelines, typically between seven and 12 years;
- › may invest a portion of the fund's assets in non-Canadian securities where such an investment is compatible with the investment objectives of the fund. Although there is no specific limitation on the percentage of the assets of the fund that may be invested in non-Canadian securities, as of the date of this simplified prospectus we do not expect that the fund will invest more than 30 per cent of its assets in non-Canadian securities;
- › may invest up to 10 per cent of the fund's assets in units of other mutual funds managed by RBC GAM or an affiliate;
- › may use derivatives for hedging purposes to protect against losses or reduce volatility resulting from changes in interest rates, market indices or foreign exchange rates and to reduce the fund's exposure to changes in the value of foreign currencies relative to the Canadian dollar;

- › may also use derivatives such as options, futures, forward contracts and swaps as a substitute for direct investment, to generate income or to extend or reduce the duration of fixed-income investments;
- › may use derivatives in accordance with relief obtained from applicable securities legislation as described under *Specific information about each of the mutual funds described in this document – Investment strategies* on page 7; and
- › may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool.

What are the risks of investing in the fund?

Investing in the fund may result in the following risks which are described in more detail beginning on page 2 of this simplified prospectus:

- › interest rate risk;
- › credit risk;
- › currency risk;
- › foreign market risk;
- › derivative risk;
- › securities lending, repurchase and reverse repurchase transaction risks; and
- › underlying fund risk.

Phillips, Hager & North Total Return Bond Trust

Who should invest in this fund?

This fund may be right for you if:

- › you want exposure to a well-diversified portfolio of Canadian fixed-income securities; or
- › you are planning to hold your investment for the medium-to-long term and can tolerate low investment risk (i.e. you can accept fluctuations in the value of your investment).

Distribution policy

This fund intends to distribute any net income and net capital gains annually in December. Distributions are automatically reinvested in additional units of the fund unless you tell your dealer that you want them in cash.

RBC High Yield Bond Trust

Fund details

Type of fund	High yield bond fund
Date started	December 19, 2011
Securities offered	Trust units – Series O units
Registered plan eligibility	Not eligible for registered plans or TFSA's.
Fees and expenses	No management fees are payable by the fund. Unitholders pay a negotiated fee directly to RBC GAM which will not exceed 2.00%. Fees and expenses payable by the fund consist of an administration fee of 0.02%, taxes and other fund costs. See <i>Fees and expenses</i> on page 15 for details.

What does the fund invest in?

Investment objectives

- › To provide a high level of income with the potential for modest capital growth.

The fund invests primarily in higher yielding corporate debt securities issued by Canadian and U.S. corporations.

We will not change the fundamental investment objectives of the fund unless we have the consent of a majority of the voting unitholders of the fund to do so.

Investment strategies

To achieve the fund's objectives, the portfolio manager:

- › invests primarily in higher yielding debt securities rated from BBB to B (by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or its equivalent), issued by Canadian and U.S. corporations;
- › employs a value-focused philosophy for corporate bonds, striving to invest in quality companies having stable to improving credit profiles which are considered to be undervalued;
- › conducts detailed company credit and industry analysis to identify investment opportunities offering high probabilities of superior rates of return while simultaneously minimizing default prospects;
- › diversifies the portfolio so as not to be concentrated in any one issuer, industry, or credit rating, with the goal of balancing volatility with portfolio return optimization;
- › may invest up to 10 per cent of the fund's assets in units of other mutual funds managed by RBC GAM or an affiliate;
- › may use derivatives for hedging purposes to protect against losses or reduce volatility resulting from changes in interest rates, market indices or foreign exchange rates and to reduce the fund's exposure to changes in the value of foreign currencies relative to

the Canadian dollar. The portfolio manager will determine the level of currency exposure based on its current view of currency markets. The fund's foreign currency exposure is typically fully hedged;

- › may also use derivatives such as options, futures, forward contracts and swaps as a substitute for direct investment;
- › may use derivatives in accordance with relief obtained from applicable securities legislation as described under *Specific information about each of the mutual funds described in this document – Investment strategies* on page 7; and
- › may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool.

What are the risks of investing in the fund?

Investing in the fund may result in the following risks which are described in more detail beginning on page 2 of this simplified prospectus:

- › interest rate risk;
- › credit risk;
- › currency risk;
- › liquidity risk;
- › derivative risk;
- › foreign investment risk;
- › securities lending, repurchase and reverse repurchase transaction risks; and
- › underlying fund risk.

RBC High Yield Bond Trust

Who should invest in this fund?

This fund may be right for you if:

- › you want exposure to higher yield debt securities to diversify the fixed-income portion of your overall portfolio; or
- › you are planning to hold your investment for the medium-to-long term and can tolerate low to medium investment risk (i.e. you can accept fluctuations in the value of your investment).

Distribution policy

This fund intends to distribute any net income and net capital gains annually in December. Distributions are automatically reinvested in additional units of the fund unless you tell your dealer that you want them in cash.

Purchases, switches and redemptions

How the units are valued

Currently, the funds offer only Series O units. Each fund's Series O units are of equal value.

All transactions are based on the series net asset value per unit (*unit value*). We usually calculate the unit value for each fund on each business day after the Toronto Stock Exchange (TSX) closes, but in some circumstances, we may calculate it at another time. A business day is any day when RBC GAM's office in Toronto is open for business. The unit values can change daily.

The unit value is the price used for all purchases and redemptions of units of that series (including purchases made on the reinvestment of distributions). The price at which units are issued, switched or redeemed is based on the next applicable unit value determined after the receipt of the purchase, switch or redemption order.

Here is how we calculate the unit value of a series of a fund:

- › We take the fair value of all the investments and other assets allocated to the series.
- › We then subtract the liabilities allocated to that series. This gives us the net asset value for the series.
- › We divide this amount by the total number of units of the series that investors in the fund are holding. That gives us the unit value for the series.

To determine what your investment in a fund is worth, simply multiply the unit value of the series of units you own by the number of units you own.

Unit values are available by calling our toll-free Customer Service line at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French).

How to buy, redeem and switch

It is up to you or your investment professional, if applicable, to determine if Series O units are appropriate for you.

Series O units are available to institutional investors who have entered into an agreement directly with RBC GAM to purchase Series O units. No management fees are payable by a fund in respect of Series O units. Unitholders of Series O units pay a negotiated management fee directly to RBC GAM, which will not exceed 2.00%.

If your balance falls below the minimum required balance for a fund, or you otherwise become ineligible to hold a fund, we may redeem your units. Where a unitholder is or becomes a citizen or resident of the United States or a resident of any other foreign country, we may require such unitholder to redeem their units if their participation has the potential to cause adverse regulatory or tax consequences for a fund or other unitholders of a fund. If we redeem your units, the effect will be the same as if you initiated the transaction.

For us to act on an order to buy, redeem or switch units, the branch, telephone salesperson or dealer must send the order to us on the same day it is received and assume all associated costs.

If we receive your order before 4:00 p.m. Eastern time, your order will be processed using that day's unit value. If we receive your order after 4:00 p.m. Eastern time, your order will be processed using the next business day's unit value. If the trustee determines that the unit value will be calculated at a time other than after the usual closing time of the TSX, the unit value paid or received will be determined relative to that time. All orders are processed within three business days. You will find more information about buying, redeeming and switching units of the funds in the annual information form of the funds. A dealer may establish earlier cut-off times. Check with your dealer for details.

You have to pay for your units when you buy them. If we do not receive payment in full, we will cancel your order and redeem the units, including any units you bought through a switch. If we redeem the units for more than the value for which they were issued, the difference will go to the fund. If we redeem the units for less than the value for which they were issued, we will pay the difference to the fund and collect this amount, plus the cost of doing so, from your dealer. Your dealer may require you to reimburse the amount paid if it suffers a loss as a result.

We have the right to refuse any order to buy or switch units. We must do so within one business day from the time we receive the order. If we refuse your order to buy or switch, we will immediately return any monies we received with your order.

Excessive trading

Buying, redeeming or switching units of a mutual fund within 30 business days after they were purchased, which is referred to as excessive or short-term trading, may have an adverse effect on other investors in the mutual fund because it can increase trading costs to the mutual fund to the extent the mutual fund purchases and sells portfolio securities in response to each redemption request. An investor who engages in short-term trading also may participate in any appreciation in the net asset value of the mutual fund during the short period that the investor was invested in the mutual fund, which reduces the amount of the appreciation that is experienced by other, longer term investors in the mutual fund. Due to the nature of the assets in which the funds invest, we believe that investors in the funds are not exposed to the adverse effects of short-term trading described above and therefore we do not restrict short-term trading in the funds.

Purchases

Series O units are no load, which means you can buy, redeem or switch Series O units of a fund through certain dealers without paying a commission. See *Fees and expenses* and *Dealer compensation* for more information.

We may limit or “cap” the size of a fund by restricting new purchases, including units bought through switches. We will continue redemptions and the calculation of the fund’s unit value for each series. We may subsequently decide to start accepting new purchases or switches to that fund at any time.

Switches

You can switch units from one fund to another RBC Fund as long as you:

- › maintain the relevant minimum balance in each RBC Fund; and
- › switch for units purchased under the same sales charge option.

You can only switch between units of RBC Funds denominated in the same currency.

Once we receive your order to switch, we will redeem your units in the fund from which you are switching as described below under *Redemptions* and use the proceeds to buy units of the other RBC Fund to which you are switching.

Switching to or from a fund is considered a disposition and may result in a gain or loss for tax purposes. **You are responsible for tracking and reporting to the Canada Revenue Agency (CRA) any gain or loss that you realize.**

Redemptions

You can instruct your dealer to sell some or all of your units at any time. This is called a redemption. Redemptions will only be permitted in certain minimum amounts. See *How to buy, redeem and switch* on page 13 for details. Your dealer must send your redemption request on the same day it is received. The dealer must assume all associated costs. Redemption requests for a fund are processed in the order in which they are received. We will not process redemption requests specifying a forward date or specific price.

Your redemption (or switch) transaction will not be processed until your dealer has received all documentation. Your dealer will inform you of the documentation it requires. Your dealer must provide all required documents within 10 business days of the date your redemption order is processed. If not, we will repurchase the units for your account. If the cost of repurchasing the units is less than the redemption proceeds, the fund will keep the difference. If the cost of repurchasing the units is more than the redemption proceeds, your dealer must pay the difference and any related costs. Your dealer may require you to reimburse the amount paid if the dealer suffers a loss.

If you redeem units of a fund, you can tell us to mail you a cheque or transfer the proceeds to your bank account with any financial institution. **You are responsible for tracking and reporting to the CRA any gains or losses that you realize from redeeming or switching units of a fund.**

When you may not be allowed to redeem your units

Under extraordinary circumstances, you may not be allowed to redeem your units. We may suspend your right to redeem if:

- › normal trading is suspended on any stock exchange or market where more than 50 per cent of the assets of a fund are listed or traded; or
- › we get permission from the CSA to allow us to temporarily suspend the redemption of units.

Fees and expenses

This section outlines the fees and expenses you may pay directly or indirectly when you invest in the funds. The funds pay some fees and expenses which you pay indirectly because they reduce the value of your investment.

FEES AND EXPENSES PAYABLE BY THE FUNDS

<p>Management fees</p>	<p>RBC GAM, as manager of the funds, is not entitled to a management fee payable by a fund in respect of Series O units. Unitholders of Series O units pay a negotiated fee directly to RBC GAM which will not exceed 2.00 per cent. See the <i>Fees and expenses</i> information at the start of each individual fund's section of this simplified prospectus.</p> <p>No management fees or incentive fees are payable by a fund that, to a reasonable person, would duplicate a fee payable by the underlying funds of that fund for the same service. In addition, the fund will not pay any sales fees or redemption fees upon a purchase or redemption of securities of any underlying fund which is an RBC Fund or a fund managed by an affiliate.</p>
<p>Operating expenses</p>	<p>RBC GAM pays certain operating expenses of the funds. These expenses include regulatory filing fees and other day-to-day operating expenses including, but not limited to, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees, the costs of preparing and distributing annual and semi-annual reports, prospectuses, fund facts and statements and investor communications. In return, each fund pays a fixed administration fee to RBC GAM. The administration fee may vary by fund. See the <i>Fees and expenses</i> information in the <i>Fund details</i> table for each fund in this simplified prospectus.</p> <p>Each fund also pays certain operating expenses directly, including the costs and expenses related to the Board of Governors of the RBC Funds, the cost of any new government or regulatory requirements and any borrowing costs (collectively, <i>other fund costs</i>), and taxes (including, but not limited to, GST or HST, as applicable). Other fund costs will be allocated among funds in a fair and equitable manner in accordance with the services used.</p> <p>RBC GAM may, in some years and in certain cases, pay a portion of the administration fee or other fund costs. The decision to absorb the administration fee or other fund costs is reviewed annually and determined at the discretion of RBC GAM, without notice to unitholders.</p> <p>The administration fee and other fund costs are included in the management expense ratio (<i>MER</i>) of a fund.</p> <p>Effect of harmonized sales tax (HST) on MERs</p> <p>A fund is generally required to pay HST on management fees and administration fees charged to the fund. In general, the HST rate depends on the residence of a fund's unitholders. Changes in existing HST rates, changes to which provinces impose HST and changes in the breakdown of the residence of the fund's unitholders may therefore have an impact on the MER of a fund, year over year.</p>

	<p>Board of Governors</p> <p>The Board of Governors acts as the independent review committee of the funds. Each member of the Board of Governors is entitled to receive an annual fee of \$25,000 (\$35,000 for the Chair) and \$2,000 per meeting of the Board of Governors. Each member that sits on a sub-committee of the Board of Governors is entitled to receive an additional meeting fee with respect to these committee meetings. For the Governance Committee, each member is entitled to receive a meeting fee of \$2,500 and the Chair of this committee is also entitled to receive an annual fee of \$3,000. For the Financial Advisory Committee, each member is entitled to receive a meeting fee of \$3,000 and the Chair of this committee is also entitled to receive an annual fee of \$4,000. Each member of the Investment Conflicts Committee is entitled to receive a meeting fee of \$3,500 and the Chair of this committee is also entitled to receive an annual fee of \$5,000. Each member of the Board of Governors will also be reimbursed for expenses in connection with performing his or her duties in this regard. These fees and expenses are allocated among the funds managed by RBC GAM in a manner that is fair and reasonable.</p>
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FEES AND EXPENSES PAYABLE DIRECTLY BY YOU

Sales charges	The Series O units of the funds are no load, which means you can buy, redeem or switch units of these series through certain dealers without paying a commission.
Redemption fees	You pay no sales charge when you redeem Series O units of a fund.
Other fees and expenses	You may have to reimburse your dealer if it suffers a loss as a result of our having to redeem your units for insufficient payment. See <i>How to buy, redeem and switch</i> on page 13 of this simplified prospectus.

Impact of sales charges

The following table shows the fees that you would pay if:

- › you invested \$1,000 in Series O units of the fund; and
- › you held that investment for one, three, five or 10 years and you redeemed the entire investment immediately before the end of that period.

	Fee at time of purchase	Redemption fee before end of:			
		1 year	3 years	5 years	10 years
RBC Fund – Series O	Nil	Nil	Nil	Nil	Nil

You do not pay a sales charge or commission when you buy, redeem or switch Series O units.

Dealer compensation

How your investment professional and dealer are paid

Your investment professional usually is the person through whom you purchase the funds. Your investment professional could be a broker, financial planner or advisor who is registered to sell mutual funds. Your dealer is the firm for which your investment professional works.

For Series O units

You do not pay sales charges on Series O units.

Trailing commissions

We do not pay trailing commissions on Series O units.

Other forms of dealer support

Royal Bank owns, directly or indirectly, 100 per cent of RBC DS, a participating dealer in respect of units of the funds.

Dealer compensation from management fees

Although no compensation has been paid to dealers in respect of the funds, approximately 55.29 per cent of the total management fees paid by the RBC Funds (other than the funds) in respect of all the series of the RBC Funds (other than the funds) was used to pay for dealer commissions or other promotional activities of the RBC Funds (other than the funds) in the financial year ended December 31, 2010.

Income tax considerations for investors

This section describes how your investment in a fund will be subject to Canadian income tax. This description assumes that:

- › you are a resident in Canada for purposes of the *Income Tax Act* (Canada);
- › you are not a “financial institution” for purposes of the “mark-to-market” rules contained in the *Income Tax Act* (Canada); and
- › you hold your units as capital property.

Everyone’s tax situation is different. You should consult your tax advisor about your individual situation.

How you can earn money from your investment

Your investment in a fund can earn money from:

- › distributions of any income the fund earns or capital gains it realizes; and
- › any capital gains you realize when you redeem or switch your units of the fund.

Income includes interest the fund earns from its investments as well as gains from its investments in certain derivatives. Income distributions may vary as a result of the timing of recognition of gains and losses from investments in derivatives. A fund may realize gains or losses when it sells its investments.

How the funds are taxed

Each fund will qualify as a “unit trust”, but not a “mutual fund trust”, as defined in the *Income Tax Act* (Canada).

A fund generally pays no ordinary income tax as long as it distributes its net investment income and net realized capital gains, if any, to its unitholders every year. Each fund intends to distribute sufficient income and capital gains each year so it will not have to pay ordinary income tax and may also make an additional distribution in December of each year to achieve this result. The funds can make other distributions, including return of capital distributions.

Since the funds are not mutual fund trusts under the *Income Tax Act* (Canada), the funds (i) may become liable for alternative minimum tax under the *Income Tax Act* (Canada), (ii) will not be eligible for capital gains refunds under the *Income Tax Act* (Canada), (iii) may be subject to the “mark-to-market” rules contained in the *Income Tax Act* (Canada), and (iv) may be subject to a special tax under Part XII.2 of the *Income Tax Act* (Canada).

A fund will be a “financial institution” for purposes of the “mark-to-market” rules contained in the *Income Tax Act* (Canada) at any time if more than 50 per cent of the fair market value of all interests in the fund is held at that time by one or more “financial institutions”. The *Income Tax Act* (Canada) contains special rules for determining the income of a financial institution. For example, certain of the funds’ investments would be considered mark-to-market properties so that capital gains treatment would not apply to gains and losses from the disposition of such investments. In addition, if a fund is a financial institution, the fund will be deemed to have disposed and reacquired its mark-to-market property at the end of each taxation year for fair market value and the gains from these dispositions will be taxed on income account and the losses will be fully deductible. Also, certain of the funds’ investments may be “specified debt obligations” under the *Income Tax Act* (Canada). Generally, with respect to these investments, if a fund is a financial institution, it will compute its income from such investments on an accrual basis in accordance with prescribed rules.

How your investment is taxed

Eligibility

Units of each of the funds will not be a qualified investment for trusts governed by registered plans and tax-free savings accounts.

Registered plans include Registered Retirement Savings Plans (RRSPs), Group Registered Retirement Savings Plans (GRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs), Registered Disability Savings Plans (RDSPs) and Deferred Profit Sharing Plans (DPSPs).

Distributions

- › In calculating your income each year you must take into account the amount of any distributions paid or payable by a fund, whether you receive the distributions in cash or you reinvest them in units of the fund. Any amount reinvested in additional units of a fund will be added to the adjusted cost base of your units.
- › Distributions from a fund are treated as ordinary income, capital gains, foreign income or non-taxable amounts (including a return of capital). Each type of distribution is taxed differently, with distributions that are treated as capital gains or a return of capital being treated more favourably than other distributions.
- › You will be informed each year of the type of distributions paid to you and what amounts are treated as taxable capital gains, foreign income and non-taxable amounts (including a return of capital), and the amount of any foreign taxes paid by the fund for which you may be able to claim a credit for tax purposes to the extent permitted by the *Income Tax Act* (Canada), where those items are applicable.
- › The net asset value of the units may include income and/or capital gains that have been earned but not yet distributed. If you buy units of a fund just before it makes a distribution, such as just before a year-end distribution, you will be taxed on that distribution payment even though it may have been reflected in the price you paid for your units.
- › If you redeem your units part way through a distribution period, you will not receive a distribution for those units as entitlement to distributions depends on holding units at the time of the distribution. However, a portion or all of the distribution amount will be reflected in the price you received for selling your units.
- › Distributions reduce a fund's unit value.
- › Distributions made by a fund from gains on certain derivatives are considered ordinary income, not capital gains.
- › You should consult your own tax advisor regarding the deductibility of fees paid by you.

Calculating your capital gains or losses when you redeem your units

You are responsible for tracking and reporting to the CRA in Canadian dollars any capital gains or losses that you realize in respect of your units. Your capital gain or loss for tax purposes on a redemption or switch of units is the difference between the amount you receive for the redemption or switch (less any costs of a disposition such as fees) and the adjusted cost base of those units. One-half of a capital gain or a capital loss is taken into account in determining taxable capital gains and allowable capital losses, respectively. The amount of a taxable capital gain is included in your income. Allowable capital losses are only deductible against taxable capital gains subject to and in accordance with detailed tax rules. You may also realize capital gains or losses on units redeemed to pay any fees in connection with switches.

If you have purchased units at various times, you will likely have paid various prices. This includes units you received through reinvested distributions or switches. Your adjusted cost base of a unit is the weighted average price paid per unit calculated in Canadian dollars. Below is an example of how to calculate the adjusted cost base of your units of a fund:

- › Suppose you own 1,000 units of a fund for which you paid \$10 each, including any initial sales charge. That is \$10,000.
- › Now suppose you bought another 100 units of the same fund at \$12 each, including any initial sales charge. That is \$1,200.
- › You have spent \$11,200 for 1,100 units of the fund.
- › Your new adjusted cost base is \$11,200 divided by 1,100 units or \$10.18 per unit.

If you switch your units of one fund to units of another fund, the transaction will be treated as a disposition of the switched units and an acquisition of the new units. Therefore, on such a switch, you may realize a capital gain or loss and the adjusted cost base of your investment may change.

If you are an individual and you sell your units of a fund for a capital loss and you or a person affiliated with you (including a corporation that you own) has bought units of the fund within 30 days before or after you sell your units, such loss may not be deductible by you against your capital gains. In such case, the amount of such loss is added to the adjusted cost base of the newly acquired units. If you are a corporation, trust or partnership and you sell your units of a fund for a capital loss, your capital loss may be suspended by the "suspended loss" rules. You may want to consult a tax advisor.

You should keep a detailed record of the purchase cost of your units and distributions you receive on those units so you can calculate their adjusted cost base. Appropriate adjustments will have to be made in the event of a consolidation or split of units. You may want to consult a tax advisor about your own circumstances.

Portfolio turnover rate

In general, the higher the portfolio turnover rate in a year, the greater the chance that a unitholder may receive a distribution that must be included in income for the year. If reinvested, this amount will be added to the adjusted cost base of the unitholder's units for tax purposes. There is not necessarily a relationship between a high turnover rate and the performance of a mutual fund. However, a high turnover rate will increase trading costs, which are expenses payable by the funds.

What are your legal rights?

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within two business days of receiving the simplified prospectus, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund units and get your money back if you do not receive our simplified prospectus, or to make a claim for damages if the simplified prospectus, annual information form or financial statements misrepresent any facts about the fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer.

Words and phrases used in this simplified prospectus

We have written this simplified prospectus in plain language to help you understand how our mutual funds work. Financial terms can be complex, so we have provided a more complete definition of some of them here. If you have any questions after reading this section, please call the number on page 2 of this simplified prospectus or your dealer.

Adjusted cost base

In general terms, it is the total price you paid for all the units of a series of a fund in your account, including reinvested distributions. The adjusted cost base per unit of a series is the weighted average price paid per unit.

Annual information form

A document filed by the funds with Canadian securities regulators. It provides supplementary information about the funds.

Asset-backed commercial paper

A short-term debt security issued by a trust or a special purpose vehicle which in turn buys various assets that produce income streams such as trade receivables, auto loans, home equity loans and mortgages. The trust (otherwise known as a conduit) funds the purchase of these various assets by issuing commercial paper.

Bond

A long-term debt security issued or guaranteed by a government or business entity. The issuer promises to pay the holder a specified amount of interest and return the principal amount when the bond matures. Bonds can be transferred from one owner to another. They should not be confused with Canada Savings Bonds which, generally, can be owned and cashed only by the original buyer.

Commercial paper

A short-term debt security issued by banks, corporations and other borrowers. The issuer promises to pay the holder a specific amount, with interest, on a specified day in the future. It is generally not secured by assets and is usually offered at varying interest rates, depending on its term.

Debenture

A bond that is not secured by any pledge of property. Debentures are backed only by the general credit of the issuer.

Debt securities

Obligations to repay borrowed money within a certain time, with or without interest. Bonds, debentures, commercial paper, asset-backed commercial paper, notes and treasury bills (*T-bills*) are debt securities.

Derivatives

A derivative is a financial instrument that “derives” its value from the performance of an underlying asset, index or other investment.

Equity

When you buy shares in a corporation, you are buying “equity,” or ownership rights, in that corporation. Shares are often referred to as “equities.”

Forward contract

A commitment made today to buy or sell a currency, a commodity or security on a specific day in the future at a specified price. The terms of the contract are agreed upon when the commitment is made. Forward contracts are traded through an over-the-counter telephone or computer network. See also “Over-the-counter trading.”

Futures contract

Similar to a forward contract, except that it has standardized terms and conditions and is traded only on a futures exchange, not over-the-counter.

Hedge

Hedging is a strategy used to offset or reduce the risk associated with an investment or a group of investments. For example, if a fund buys investments valued in U.S. dollars, it can sign an agreement to protect or “hedge” the value of the investment against a change in the value of the Canadian dollar relative to the U.S. dollar.

Index

A means of measurement. There are indices that measure the rise and fall of key consumer goods and services and others that track fluctuations in the value of stocks and bonds.

Leverage

Using borrowed funds to help pay for an investment. Leveraging magnifies the amount you make or lose, because the gain or loss is measured against the portion of the investment you have not borrowed – not against the total investment. For example, if you borrow \$500 to make a \$1,000 investment, and the value of the investment increases by \$100, your gain is 20 per cent (\$100 gain on the \$500 you have not borrowed), not 10 per cent. Similarly, if the value of the investment decreases by \$100, your loss will be 20 per cent.

Liquidity

An investment is “liquid” if it can be bought and sold on a public market. Liquidity also refers to how easy it is to convert an investment to cash at a reasonable price.

London Inter-Bank Offered Rate (LIBOR)

The rate of interest on U.S.-dollar-denominated deposits traded between banks in London, widely monitored as an international interest rate indicator. It may be quoted as a one-month, three-month, six-month, or one-year rate. The LIBOR allows investors to match their cost of lending to their cost of funds, and is often used as a base index for setting rates of some adjustable rate financial instruments, including Adjustable Rate Mortgages (*ARMs*).

Management expense ratio

A management expense ratio (*MER*) is the total fees and expenses a fund paid during a year divided by its average assets for that year.

Note

A debt security committing the issuer to pay a specific sum of money, either on demand or on a fixed date in the future, with or without interest.

Option

Gives the owner the right, but not the obligation, to buy or sell a security within a certain time period, at a specified price. A call option is the right to buy; a put option is the right to sell. The buyer of the option pays the seller a premium. Options can be traded on an exchange or over-the-counter.

Over-the-counter trading (OTC)

This term refers to trading in stocks or options through a computer or telephone network rather than through a public stock exchange. The term originates from the time share certificates were purchased over a bank or a store counter.

Portfolio turnover rate

Portfolio turnover rate is calculated based on the lesser of securities purchased or sales proceeds divided by the average market value of portfolio securities for the period, excluding short-term securities.

Repurchase Agreements ("repo")

This agreement is like a short-term loan and takes place when one party buys a security at one price and agrees to sell it back later to the same party at a higher price. The difference between the higher price and the original price is like the interest rate payment on a loan.

Return of capital

Return of capital typically occurs when a fund's objective is to pay unitholders a fixed regular monthly distribution. If the interest, dividends and capital gains which have been earned by the fund are

less than the amount of the regular distributions, return of capital is added to make up the remainder of the payment. This helps to maintain a consistent payout rate each month. The main benefit of return of capital distributions is that they are not immediately taxable when received. This makes it different from other types of distributions such as interest, dividends and taxable capital gains, which must be included as income in the year received. Amounts that have been paid to you as return of capital are identified on your T3 slip (Relevé 16 in Quebec).

Securities

Investments or financial instruments such as shares, debt securities and derivatives.

Shares

Units of ownership in a corporation that give the owner certain stated rights. Holders of preferred shares generally have preference over holders of common shares when a corporation pays dividends or liquidates its assets.

Swaps

These are negotiated contracts between parties agreeing to exchange payments based on returns of different investments. The most common type is an interest rate swap. Party A agrees to pay Party B a fixed amount based on a pre-set interest rate. In return, Party B agrees to pay Party A a floating amount based on a reference rate such as bankers acceptances or LIBOR.

Treasury bills (T-bills)

Short-term debt securities issued or guaranteed by federal, provincial or other governments. T-bills are issued at a discount and do not pay any interest. The return on a T-bill is the difference between the price you pay and its "face" or par value.

Units

Units are issued by a mutual fund trust and represent your investment in the fund. When you invest in a mutual fund trust, you buy units or fractions of units of the mutual fund.

Unit value

The total value of a fund's assets allocable to a series, minus the liabilities allocable to that series, divided by the number of outstanding units of that series.

RBC Funds

You will find more information about each fund in its annual information form, fund facts, management reports of fund performance and financial statements. These documents are incorporated by reference into this simplified prospectus. That means they legally form part of this simplified prospectus just as if they were printed in it.

For a copy of these documents, at no cost, call us toll-free at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), email us at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French) or ask your dealer.

You can also get copies of this simplified prospectus, the annual information form, the fund facts, the management reports of fund performance and the financial statements from the RBC GAM website at www.rbcgam.com.

These documents and other information about the funds, such as information circulars and material contracts, are also available at www.sedar.com.

RBC Global Asset Management Inc.

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Dealer Services: 1-800-662-0652



**RBC Global
Asset Management**